

**REPORT OF THE AUDIT OF THE
MUHLENBERG COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
MUHLENBERG COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

The Auditor of Public Accounts has completed the Muhlenberg County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$4,327,267 from the beginning of the year, resulting in a cash surplus of \$5,983,950 as of June 30, 2003.

Report Comment:

- The Jailer Should Maintain Accounting Records For The Jail Canteen Fund In Accordance With Kentucky Revised Statutes

Debt Obligations:

Total debt principal as of June 30, 2003, was \$13,640,000. Future collections of \$21,053,625 are needed to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$86,000 as of June 30, 2003. Future principal and interest payments of \$113,552 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Rodney K. Kirtley, Muhlenberg County Judge/Executive

Members of the Muhlenberg County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Muhlenberg County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances – governmental fund type, the statement of cash receipts, cash disbursements, and changes in cash balances – proprietary fund type and the related statement of cash flows – proprietary fund type for the year then ended. These financial statements are the responsibility of the Muhlenberg County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Muhlenberg County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Muhlenberg County, Kentucky, as of June 30, 2003 and its receipts and disbursements and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Rodney K. Kirtley, Muhlenberg County Judge/Executive
Members of the Muhlenberg County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 1, 2004 on our consideration of Muhlenberg County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Muhlenberg County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Jailer Should Maintain Accounting Records For The Jail Canteen Fund In Accordance With Kentucky Revised Statutes

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 1, 2004

MUHLENBERG COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

| | |
|-------------------|------------------------|
| Rodney K. Kirtley | County Judge/Executive |
| David James | Magistrate |
| Phil O'Neal | Magistrate |
| Tommy Watkins | Magistrate |
| Daniel Bowles | Magistrate |
| Harold Wester | Magistrate |

Other Elected Officials:

| | |
|----------------|----------------------------------|
| Darris Russell | County Attorney |
| Willie Justice | Jailer |
| Gaylan Spurlin | County Clerk |
| Janet Hearld | Circuit Court Clerk |
| Jerry Mayhugh | Sheriff |
| Bill Alward | Property Valuation Administrator |
| Tony Armour | Coroner |

Appointed Personnel:

| | |
|------------------|------------------|
| Charles R. Lewis | County Treasurer |
|------------------|------------------|

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

MUHLENBERG COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND
EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

| | Governmental Fund Types | | | |
|--|----------------------------|--------------------------|----------------------------|----------------------------|
| | General | Special Revenue | Capital Projects | Debt Service |
| <u>Assets and Other Resources</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and Cash Equivalents | \$ 826,777 | \$ 112,002 | \$ 4,829,609 | \$ 262,588 |
| Total Assets | <u>\$ 826,777</u> | <u>\$ 112,002</u> | <u>\$ 4,829,609</u> | <u>\$ 262,588</u> |
| <u>Other Resources</u> | | | | |
| Amounts to Be Provided in Future Years for: | | | | |
| Capital Lease Payments | \$ 86,000 | \$ | \$ | \$ |
| Bond Payments | <u>6,685,000</u> | | | <u>6,955,000</u> |
| Total Other Resources | <u>\$ 6,771,000</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 6,955,000</u> |
| Total Assets and Other Resources | <u><u>\$ 7,597,777</u></u> | <u><u>\$ 112,002</u></u> | <u><u>\$ 4,829,609</u></u> | <u><u>\$ 7,217,588</u></u> |

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

| <u>Proprietary Fund Type</u> | <u>Fiduciary Fund Type</u> | <u>Totals (Memorandum Only) Reporting Entity</u> |
|----------------------------------|--------------------------------|--|
| <u>Enterprise</u> | <u>Trust and Agency</u> | |
| <u>\$ 12,286</u> | <u>\$ 341</u> | <u>\$ 6,043,603</u> |
| <u>\$ 12,286</u> | <u>\$ 341</u> | <u>\$ 6,043,603</u> |
| | | |
| <u>\$</u> | <u>\$</u> | <u>\$ 86,000</u> |
| | | <u>13,640,000</u> |
| <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 13,726,000</u> |
| <u>\$ 12,286</u> | <u>\$ 341</u> | <u>\$ 19,769,603</u> |

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

| | Governmental Fund Types | | | |
|--|----------------------------|--------------------------|----------------------------|----------------------------|
| | General | Special Revenue | Capital Projects | Debt Service |
| <u>Liabilities and Equity</u> | | | | |
| <u>Liabilities</u> | | | | |
| Capital Lease Payments (Note 5) | \$ 86,000 | \$ | \$ | \$ |
| Bonds: | | | | |
| Series 2000 (Note 4) | 6,685,000 | | | |
| Series 2002 (Note 4) | | | | 6,955,000 |
| Amounts Held in Custody for Others (Note 6) | | | | |
| Health Insurance Liability | 47,026 | | | |
| Total Liabilities | <u>\$ 6,818,026</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 6,955,000</u> |
| <u>Equity</u> | | | | |
| Retained Earnings: | | | | |
| Unreserved | \$ | \$ | \$ | \$ |
| Fund Balances: | | | | |
| Reserved | | 112,002 | 4,829,609 | |
| Unreserved | 779,751 | | | 262,588 |
| Total Equity | <u>\$ 779,751</u> | <u>\$ 112,002</u> | <u>\$ 4,829,609</u> | <u>\$ 262,588</u> |
| Total Liabilities and Equity | <u><u>\$ 7,597,777</u></u> | <u><u>\$ 112,002</u></u> | <u><u>\$ 4,829,609</u></u> | <u><u>\$ 7,217,588</u></u> |

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

| <u>Proprietary Fund Type</u> | <u>Fiduciary Fund Type</u> | <u>Totals (Memorandum Only) Reporting Entity</u> |
|----------------------------------|--------------------------------|--|
| <u>Enterprise</u> | <u>Trust and Agency</u> | |
| | | |
| \$ | \$ | \$ 86,000 |
| | | 6,685,000 |
| | | 6,955,000 |
| | 341 | 341 |
| | | 47,026 |
| | | |
| <u>\$ 0</u> | <u>\$ 341</u> | <u>\$ 13,773,367</u> |
| | | |
| \$ 12,286 | \$ | \$ 12,286 |
| | | 4,941,611 |
| | | 1,042,339 |
| | | |
| <u>\$ 12,286</u> | <u>\$ 0</u> | <u>\$ 5,996,236</u> |
| | | |
| <u>\$ 12,286</u> | <u>\$ 341</u> | <u>\$ 19,769,603</u> |

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

MUHLENBERG COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUND TYPE

For The Fiscal Year Ended June 30, 2003

| | General Fund Types | | | |
|--|--------------------------|-------------------------|--------------------------|---|
| | General Fund | Road and Bridge Fund | Jail Fund | Local Government Economic Assistance Fund |
| <u>Cash Receipts</u> | | | | |
| Schedule of Operating Revenue | \$ 4,715,510 | \$ 1,058,805 | \$ 1,632,958 | \$ 591,703 |
| Other Financing Sources: | | | | |
| Transfers In | 1,065,000 | 550,000 | 981,343 | 125,000 |
| Borrowed Money | 750,000 | | | |
| Bond Proceeds | | | | |
| Total Cash Receipts | <u>\$ 6,530,510</u> | <u>\$ 1,608,805</u> | <u>\$ 2,614,301</u> | <u>\$ 716,703</u> |
| <u>Cash Disbursements</u> | | | | |
| Comparative Schedule of Final Budget and Budgeted Expenditures | \$ 3,609,689 | \$ 1,197,524 | \$ 1,679,627 | \$ 422,450 |
| Other Financing Uses: | | | | |
| Construction Costs | | | | |
| Transfers Out | 1,883,843 | 450,000 | 250,000 | 225,000 |
| Bonds: | | | | |
| Principal Paid | | | 210,000 | |
| Interest Paid | | | 378,843 | |
| Borrowed Money Repaid | 950,000 | | | |
| Capital Lease - Principal Paid | 7,000 | | | |
| Total Cash Disbursements | <u>\$ 6,450,532</u> | <u>\$ 1,647,524</u> | <u>\$ 2,518,470</u> | <u>\$ 647,450</u> |
| Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements | \$ 79,978 | \$ (38,719) | \$ 95,831 | \$ 69,253 |
| Cash Balance - July 1, 2002 | <u>110,088</u> | <u>105,891</u> | <u>30,560</u> | <u>3,390</u> |
| Cash Balance - June 30, 2003 | <u><u>\$ 190,066</u></u> | <u><u>\$ 67,172</u></u> | <u><u>\$ 126,391</u></u> | <u><u>\$ 72,643</u></u> |

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUND TYPE
 For The Fiscal Year Ended June 30, 2003
 (Continued)

| General Fund Types | | Special Revenue Fund Types | | | |
|--|-------------------------|----------------------------|---|-----------------------------|--------------------------|
| Local Government Economic Development Fund | Job Training Fund | Rails To Trails Fund | Pennyrile Narcotics Task Force Fund | Federal Medicaid Fund | Paradise Park Fund |
| \$ 81,333 | \$ | \$ | \$ 485,340 | \$ 362,994 | \$ |
| 100,000 | | | 227,500 | | |
| <u>\$ 181,333</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 712,840</u> | <u>\$ 362,994</u> | <u>\$ 0</u> |
| \$ 657,854 | \$ | \$ 407 | \$ 576,458 | \$ 362,994 | \$ |
| 100,000 | | | 140,000 | | |
| <u>\$ 757,854</u> | <u>\$ 0</u> | <u>\$ 407</u> | <u>\$ 716,458</u> | <u>\$ 362,994</u> | <u>\$ 0</u> |
| \$ (576,521) | \$ | \$ (407) | \$ (3,618) | \$ | \$ |
| 900,000 | 530 | 106,800 | 8,692 | | 5 |
| <u>\$ 323,479</u> | <u>\$ 530</u> | <u>\$ 106,393</u> | <u>\$ 5,074</u> | <u>\$ 0</u> | <u>\$ 5</u> |

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUND TYPE
 For The Fiscal Year Ended June 30, 2003
 (Continued)

| | <u>Capital Projects Fund Types</u> | | <u>Debt Service Fund Type</u> | |
|---|--|------------------------------|---|--------------------------------|
| | Justice Center Corporation Construction Fund | Jail Construction Fund | Justice Center Corporation Sinking Fund | Totals (Memorandum Only) |
| <u>Cash Receipts</u> | | | | |
| Schedule of Operating Revenue | \$ 23,322 | \$ 2,556 | \$ 22,419 | \$ 8,976,940 |
| Other Financing Sources: | | | | |
| Transfers In | 66,158 | | 66,158 | 3,181,159 |
| Borrowed Money | | | | 750,000 |
| Bond Proceeds | 6,420,443 | | 306,327 | 6,726,770 |
| Total Cash Receipts | <u>\$ 6,509,923</u> | <u>\$ 2,556</u> | <u>\$ 394,904</u> | <u>\$ 19,634,869</u> |
| <u>Cash Disbursements</u> | | | | |
| Comparative Schedule of Final Budget and Budgeted Expenditures | \$ | \$ 12,109 | \$ | \$ 8,519,112 |
| Other Financing Uses: | | | | |
| Construction Costs | 745,330 | | | 745,330 |
| Transfers Out | 66,158 | | 66,158 | 3,181,159 |
| Bonds: | | | | |
| Principal Paid | | | | 210,000 |
| Interest Paid | | | 66,158 | 445,001 |
| Borrowed Money Repaid | 1,250,000 | | | 2,200,000 |
| Capital Lease - Principal Paid | | | | 7,000 |
| Total Cash Disbursements | <u>\$ 2,061,488</u> | <u>\$ 12,109</u> | <u>\$ 132,316</u> | <u>\$ 15,307,602</u> |
| Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements | \$ 4,448,435 | \$ (9,553) | \$ 262,588 | \$ 4,327,267 |
| Cash Balance - July 1, 2002 | <u>381,174</u> | <u>9,553</u> | | <u>1,656,683</u> |
| Cash Balance - June 30, 2003 | <u>\$ 4,829,609</u> | <u>\$ 0</u> | <u>\$ 262,588</u> | <u>\$ 5,983,950</u> |

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

MUHLENBERG COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

| | <u>Enterprise Fund Type</u> |
|---|---------------------------------|
| | <u>Jail Canteen Fund</u> |
| Cash Receipts | |
| Jail Canteen Receipts | <u>\$ 184,797</u> |
| Total Cash Receipts | <u>\$ 184,797</u> |
| Cash Disbursements | |
| Jail Canteen Expenditures | <u>\$ 205,821</u> |
| Total Cash Disbursements | <u>\$ 205,821</u> |
| (Deficiency) of Cash Receipts (Under) Cash Disbursements | \$ (21,024) |
| Cash Balance - July 1, 2002 | <u>33,310</u> |
| Cash Balance - June 30, 2003 | <u><u>\$ 12,286</u></u> |

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

MUHLENBERG COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

| | <u>Enterprise Fund Type</u> |
|---|---------------------------------|
| | <u>Jail Canteen Fund</u> |
| Cash Flows From Operating Activities: | |
| Operating Loss | <u>\$ (21,024)</u> |
| Net Cash (Used) By Operating Activities | <u>\$ (21,024)</u> |
| Net Decrease in Cash and Cash Equivalents | \$ (21,024) |
| Cash and Cash Equivalents - July 1, 2002 | <u>33,310</u> |
| Cash and Cash Equivalents - June 30, 2003 | <u><u>\$ 12,286</u></u> |

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Muhlenberg County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Muhlenberg County Justice Center Corporation as part of the reporting entity.

Muhlenberg County Justice Center Corporation

Fiscal Court has the authority to appoint a voting majority of the Justice Center Corporation's (Corporation) Board of Directors. Fiscal Court also has the ability to approve or modify the Corporation's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the Corporation. In addition, fiscal court is financially accountable for the Corporation, legally entitled to the Corporation's resources as well as legally obligated for the Corporation's debt. Financial information of the Justice Center Corporation is blended within Muhlenberg County's financial statements.

Additional - Muhlenberg County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Muhlenberg County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Muhlenberg County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Types

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Muhlenberg County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and Local Governmental Economic Development Fund.

2) Special Revenue Fund Types

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Job Training Fund, Rails To Trails Fund, Pennyrile Narcotics Task Force Fund, Federal Medicaid Fund, and Paradise Park Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Muhlenberg County Justice Center Corporation Sinking Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Capital Projects Fund Types

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Jail Construction Fund and the Muhlenberg County Justice Center Corporation Construction Fund of the Fiscal Court are reported as Capital Projects Fund Types.

5) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Muhlenberg County Enterprise Fund Type includes the jail canteen fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

6) Fiduciary Fund Type

Fiduciary Funds are used to account for assets held by the county in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) expendable trust funds, (b) nonexpendable trust funds, (c) pension trust funds, (d) investment trust funds, and (e) agency funds. The Jail Inmate Account is an agency fund and is used to report the inmate resources held by the county in a custodial capacity.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amount to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore, the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Muhlenberg County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Muhlenberg County Justice Center Corporation Construction Fund (Capital Projects Fund) and Muhlenberg County Justice Center Corporation Sinking Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require these funds to be budgeted.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts. The county considers certificates of deposit with a maturity date of three months or less when purchased to be cash equivalents. KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, the following are considered joint ventures of Muhlenberg County Fiscal Court: Paradise Industrial Park and Bluegrass Crossing Industrial Park.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

MUHLENBERG COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Long-Term Debt

Detention Center

On January 19, 2000, the Muhlenberg County Fiscal Court issued \$6,895,000 General Obligation Improvement Bonds, Series 2000, for the construction of the Detention Center. These bonds are required to be paid fully within 20 years from the date of issue and are backed by the full faith and credit of the county. The bonds will mature as to principal beginning August 1, 2002.

Bonds outstanding as of June 30, 2003 totaled \$6,685,000. Future debt service requirements of the Jail Fund are:

| <u>Fiscal Year Ended June 30</u> | <u>Scheduled Interest</u> | <u>Scheduled Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2004 | \$ 367,018 | \$ 220,000 |
| 2005 | 354,724 | 225,000 |
| 2006 | 342,098 | 230,000 |
| 2007 | 328,778 | 250,000 |
| 2008 | 314,625 | 260,000 |
| 2009-2013 | 1,334,250 | 1,525,000 |
| 2014-2018 | 848,400 | 1,970,000 |
| 2019-2022 | 232,540 | 2,005,000 |
| Totals | <u>\$ 4,122,433</u> | <u>\$ 6,685,000</u> |

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Long-Term Debt (Continued)

Justice Center

The Muhlenberg County Justice Center Corporation entered into a bond issue, Muhlenberg County, Kentucky Justice Center Corporation First Mortgage Revenue Bonds (Judicial Center Project), Series 2002 on December 1, 2002 for the purpose of i) constructing a new judicial center for lease to the Administrative Office of the Courts; ii) capitalizing interest for twelve (12) months; iii) paying in full the outstanding loan between the County and Old National Trust Company; and, iv) paying the costs of issuance of the bonds. The issue amount of the bonds was \$6,955,000.

The Muhlenberg County Justice Center Corporation and the Administrative Office of the Courts of the Commonwealth of Kentucky entered into a lease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (AOC), in which the AOC leases from the Corporation and the Corporation hereby leases to the AOC, the AOC portion of the Project Site and the Project, together with all improvements thereon and to be constructed thereof for an initial period from the occupancy date until June 30, 2004, at the agreed and stipulated rentals equal to the AOC use allowance. The maximum use allowance is set at \$556,700 per year. The rental amount is anticipated to be adequate to pay 100% of the net debt service on the bonds. On July 1 of each even numbered year, this lease may be renewed by AOC for another biennial period of two years. Interest on the bonds is payable each March 1 and September 1. The bonds will mature as to principal on September 1, 2004 and each September 1 thereafter. The interest rate on the bonds ranges from 1.55% to 4.60%. The outstanding balance as of June 30, 2003 was \$6,955,000

Bonds outstanding as of June 30, 2003 totaled \$6,955,000. Future debt service requirements of the Justice Center Corporation are:

| <u>Fiscal Year Ended June 30</u> | <u>Scheduled Interest</u> | <u>Scheduled Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2004 | \$ 264,630 | \$ |
| 2005 | 262,692 | 250,000 |
| 2006 | 258,332 | 255,000 |
| 2007 | 252,920 | 260,000 |
| 2008 | 246,419 | 265,000 |
| 2009-2013 | 1,097,553 | 1,460,000 |
| 2014-2018 | 790,614 | 1,775,000 |
| 2019-2023 | 369,120 | 2,190,000 |
| 2024 | 11,500 | 500,000 |
| Totals | <u>\$ 3,553,780</u> | <u>\$ 6,955,000</u> |

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Lease Agreement

The county has entered into the following capital lease agreement, which is paid from the General Fund.

On November 12, 1992, the Muhlenberg County Fiscal Court entered into a 20-year capital lease-purchase agreement with the Kentucky Association of Counties Leasing Trust Program for construction of waterlines. The principal amount borrowed was \$147,000 with an interest rate of 5.545%. The agreement requires monthly payments of interest and annual payments of principal.

The outstanding balance as of June 30, 2003, was \$86,000. Future principal and interest requirements are:

| <u>Fiscal Year Ended June 30</u> | <u>Scheduled Interest & Fees</u> | <u>Scheduled Principal</u> |
|--------------------------------------|--|--------------------------------|
| 2004 | \$ 5,395 | \$ 8,000 |
| 2005 | 4,873 | 8,000 |
| 2006 | 4,324 | 9,000 |
| 2007 | 3,736 | 9,000 |
| 2008 | 3,149 | 9,000 |
| 2009-2012 | <u>6,075</u> | <u>43,000</u> |
| Totals | <u>\$ 27,552</u> | <u>\$ 86,000</u> |

Note 6. Jail Canteen Fund

Presentation of Changes in Assets and Liabilities is required for Trust and Agency Funds. The Jail Inmate Account is presented as a Trust and Agency Fund; therefore, presentation of this information is required.

| <u>Jail Inmate Account</u> | <u>Balance July 1, 2002</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2003</u> |
|---------------------------------------|---------------------------------|------------------|-------------------|----------------------------------|
| Assets: | | | | |
| Cash With Fiscal Agents | \$ 312 | \$ 4,649 | \$ 4,620 | \$ 341 |
| Total Assets | <u>\$ 312</u> | <u>\$ 4,649</u> | <u>\$ 4,620</u> | <u>\$ 341</u> |
| Liabilities: | | | | |
| Amounts Held In Custody For Others | \$ 312 | \$ 4,649 | \$ 4,620 | \$ 341 |
| Total Liabilities | <u>\$ 312</u> | <u>\$ 4,649</u> | <u>\$ 4,620</u> | <u>\$ 341</u> |

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 7. Commitments and Contingencies

The Muhlenberg County Fiscal Court has adopted an ordinance approving the issuance of Collateralized Pollution Control Revenue Bonds, 2002 Series A. Such bond issue does not constitute a general debt, liability, or moral obligation of Muhlenberg County. Accordingly, these financial statements do not include any assets or liabilities related to this bond issue.

Note 8. Self Insurance

Muhlenberg County Fiscal Court elected to begin a partially self-funded health insurance plan as of May 1, 2003. This partially self-funded insurance plan covers all full-time employees. County employees are required to contribute \$15 per month and the county pays for the remainder of county employees' individual coverage. The county also pays for one-half the cost for family coverage.

This partially self-funded insurance plan has two distinct components that the fiscal court must pay. The first component is the fixed cost, which consists of administrative fees associated with operating the plan and specific and aggregate reinsurance costs that cap the county's claims exposure on an individual and aggregate basis. Fixed costs for fiscal year ended June 30, 2003 were \$26,490. The second component is the claims cost. Muhlenberg County is responsible for all claims as they incur. Once an individual exceeds \$40,000 in claims or the county's aggregate claims exceed the predetermined maximum, then the County will receive reimbursements from the carrier. Claims for fiscal year ended June 30, 2003 were \$3,974. Muhlenberg County Fiscal Court's contract with HCC Life Insurance Company has a terminal liability provision. The Health Insurance Fund had a balance of \$47,026 as of June 30, 2003.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

MUHLENBERG COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

| <u>Budgeted Funds</u> | <u>Budgeted Operating Revenue</u> | <u>Actual Operating Revenue</u> | <u>Over (Under) Budget</u> |
|--|---|---|------------------------------------|
| <u>General Fund Types</u> | | | |
| General Fund | \$ 4,378,750 | \$ 4,715,510 | \$ 336,760 |
| Road and Bridge Fund | 1,117,900 | 1,058,805 | (59,095) |
| Jail Fund | 1,411,000 | 1,632,958 | 221,958 |
| Local Government Economic Assistance Fund | 522,500 | 591,703 | 69,203 |
| Local Government Economic Development Fund | 700,000 | 81,333 | (618,667) |
| <u>Special Revenue Fund Types</u> | | | |
| Job Training Fund | 5,000 | | (5,000) |
| Rails To Trails Fund | 60,000 | | (60,000) |
| Pennyrile Narcotics Task Force Fund | 630,000 | 485,340 | (144,660) |
| Federal Medicaid Fund | 3,000,000 | 362,994 | (2,637,006) |
| Paradise Park Fund | 997,800 | | (997,800) |
| <u>Capital Projects Fund Type</u> | | | |
| Jail Construction Fund | | 2,555 | 2,555 |
| Totals | <u>\$ 12,822,950</u> | <u>\$ 8,931,198</u> | <u>\$ (3,891,752)</u> |
| <u>Reconciliation</u> | | | |
| Total Budgeted Operating Revenue Above | | | \$ 12,822,950 |
| Add: Budgeted Prior Year Surplus | | | 575,530 |
| Add: Borrowed Money | | | 1,000,000 |
| Less: Other Financing Uses | | | <u>(1,573,833)</u> |
| Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures | | | <u>\$ 12,824,647</u> |

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SCHEDULE OF OPERATING REVENUE

MUHLENBERG COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

| Revenue Categories | GOVERNMENTAL FUND TYPES | | | | |
|----------------------------|-------------------------|----------------------------------|-----------------------------------|---------------------------|--------------------------------|
| | General Fund Types | Special Revenue Fund Types | Capital Projects Fund Types | Debt Service Fund Type | Totals (Memorandum Only) |
| Taxes | \$ 1,443,141 | \$ | \$ | \$ | \$ 1,443,141 |
| In Lieu Tax Payments | 1,266,798 | | | | 1,266,798 |
| Excess Fees | 1,051,400 | | | | 1,051,400 |
| Licenses and Permits | 30,178 | | | | 30,178 |
| Intergovernmental Revenues | 3,421,200 | 485,200 | | | 3,906,400 |
| Charges for Services | 282,998 | | | | 282,998 |
| Miscellaneous Revenues | 573,467 | 362,994 | 2,625 | | 939,086 |
| Interest Earned | 11,127 | 140 | 23,253 | 22,419 | 56,939 |
| Total Operating Revenue | <u>\$ 8,080,309</u> | <u>\$ 848,334</u> | <u>\$ 25,878</u> | <u>\$ 22,419</u> | <u>\$ 8,976,940</u> |

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

MUHLENBERG COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

| Expenditure Categories | GENERAL FUND TYPES | | |
|--|---------------------|--------------------------|---------------------------|
| | Final Budget | Budgeted Expenditures | Under (Over) Budget |
| General Government | \$ 2,017,545 | \$ 1,710,820 | \$ 306,725 |
| Protection to Persons and Property | 1,974,645 | 1,954,347 | 20,298 |
| General Health and Sanitation | 619,250 | 613,410 | 5,840 |
| Social Services | 43,900 | 41,958 | 1,942 |
| Recreation and Culture | 130,950 | 126,701 | 4,249 |
| Roads | 1,453,800 | 1,449,974 | 3,826 |
| Debt Service | 11,400 | 11,199 | 201 |
| Capital Projects | 800,607 | 683,687 | 116,920 |
| Administration | 979,220 | 975,048 | 4,172 |
| Total Operating Budget - General Fund Types | \$ 8,031,317 | \$ 7,567,144 | \$ 464,173 |
| Other Financing Uses: | | | |
| Bonds- | | | |
| Principal | 210,000 | 210,000 | |
| Interest | 378,843 | 378,843 | |
| Borrowed Money- | | | |
| Principal | 976,000 | 950,000 | 26,000 |
| Capital Lease Agreement- | | | |
| Principal on Lease | 8,990 | 7,000 | 1,990 |
| TOTAL BUDGET - GENERAL FUND TYPES | <u>\$ 9,605,150</u> | <u>\$ 9,112,987</u> | <u>\$ 492,163</u> |

MUHLENBERG COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

| <u>SPECIAL REVENUE FUND TYPES</u> | | | |
|--|-------------------------|----------------------------------|------------------------------------|
| <u>Expenditure Categories</u> | <u>Final Budget</u> | <u>Budgeted Expenditures</u> | <u>Under (Over) Budget</u> |
| Capital Projects | \$ 1,063,330 | \$ 407 | \$ 1,062,923 |
| Administration | 3,630,000 | 939,452 | 2,690,548 |
| TOTAL BUDGET - SPECIAL REVENUE FUND TYPES | \$ 4,693,330 | \$ 939,859 | \$ 3,753,471 |

| <u>CAPITAL PROJECTS FUND TYPES</u> | | | |
|---|-------------------------|----------------------------------|------------------------------------|
| <u>Expenditure Categories</u> | <u>Final Budget</u> | <u>Budgeted Expenditures</u> | <u>Under (Over) Budget</u> |
| Capital Projects | \$ 100,000 | \$ 12,109 | \$ 87,891 |
| TOTAL BUDGET - CAPITAL PROJECTS FUND TYPES | \$ 100,000 | \$ 12,109 | \$ 87,891 |

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rodney K. Kirtley, Muhlenberg County Judge/Executive
Members of the Muhlenberg County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Muhlenberg County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated July 1, 2004, in which we issued an unqualified opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Muhlenberg County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Jailer Should Maintain Accounting Records For The Jail Canteen Fund In Accordance With Kentucky Revised Statutes

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muhlenberg County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 1, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rodney K. Kirtley, Muhlenberg County Judge/Executive
Members of the Muhlenberg County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Muhlenberg County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Muhlenberg County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Muhlenberg County's management. Our responsibility is to express an opinion on Muhlenberg County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muhlenberg County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Muhlenberg County's compliance with those requirements.

In our opinion, Muhlenberg County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Muhlenberg County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Muhlenberg County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 1, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Muhlenberg County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Muhlenberg County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Muhlenberg County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Muhlenberg County reported in Part C of this schedule.
7. The program tested as a major program was: Byrne Formula Grant Program (CFDA #16.579).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Muhlenberg County was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS:

None.

NONCOMPLIANCES:

The Jailer Should Maintain Accounting Records For The Jail Canteen Fund In Accordance With Kentucky Revised Statutes

The required financial reports and accounting records were not properly maintained for the jail canteen fund. Specifically, although the jailer maintained daily checkout sheets and receipt and disbursement journals, he did not prepare monthly reports and an annual report for submission to the County Treasurer as required by the Governor's Office for Local Development. In addition, the jail commissary bank account was not reconciled to the receipt and disbursement journals on a monthly basis. KRS 441.135 states, "the jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account." The State Local Finance Officer has issued guidelines for minimum accounting and reporting standards pursuant to KRS 441.135 for the jail commissary fund. We recommend that Fiscal Court should require the jailer to maintain accounting records for the jail commissary fund, including a monthly bank reconciliation, and prepare and submit the required financial reports in accordance with Kentucky Revised Statutes.

MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
Continued

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT:

Reference: 2002-1. "The County Should Comply With Grant Agreement," was corrected in the current year.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MUHLENBERG COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

| Federal Grantor Program Title <u>Grant Name (CFDA #)</u> | <u>Pass-Through Grantor's Number</u> | <u>Expenditures</u> |
|--|--|---------------------|
| Cash Programs: | | |
| <u>U.S. Department of Justice</u> | | |
| Passed-Through State Justice Cabinet: | | |
| Byrne Formula Grant - | | |
| Pennyrile Narcotics Task Force | | |
| (CFDA # 16.579) | 6480-N2-14/02 | \$ 432,344 |
| <u>U. S. Federal Emergency Management Agency</u> | | |
| Passed-Through State Department | | |
| of Military Affairs: | | |
| Disaster and Emergency | | |
| Assistance Grants- | | |
| Coordinator Salary | | |
| (CFDA #83.503) | Not Applicable | <u>8,986</u> |
| Total Cash Expenditures of Federal Awards | | <u>\$ 441,330</u> |

MUHLENBERG COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Muhlenberg County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

MUHLENBERG COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

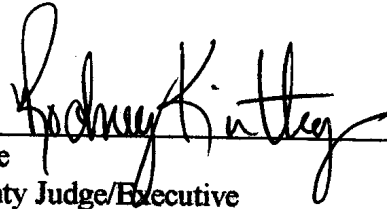
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

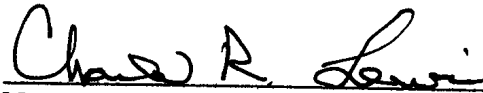
MUHLENBERG COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Muhlenberg County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

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Name
County Judge/Executive

A handwritten signature in black ink, appearing to read "Charles R. Lewis", written over a horizontal line.

Name
County Treasurer

